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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 001906

SIPDIS

NSC FOR TSHANNON AND CBARTON
ENERGY FOR DPUMPHREY AND ALOCKWOOD

E.O. 12958: DECL: 06/20/2015
TAGS: EPET VE
SUBJECT: UPDATE ON OPERATING SERVICE AGREEMENT PAYMENTS

REF: CARACAS 1721

Classified By: EconCouns Richard Sanders; for reasons 1.4 (b) and (d)

SUMMARY

¶1. (C) The Corporacion Venezolana de Petroleo (CVP, the affiliate of state oil corporation PDVSA that handles the relationship with international oil companies) has signalled that it will "soon" pay the Operational Service Agreement (OSA) companies for their first quarter or April monthly payments. CVP will reportedly only pay 66.67 percent of the normal per barrel fee. CVP has also signalled that it will only pay 50 percent of the monies owed in dollars and the rest in bolivars. The limited payment marks continued pressure for these companies to convert their service contracts to joint ventures/mixed companies under the 2001 Hydrocarbons Law. End Summary.

REDUCED PAYMENTS "SOON"

¶2. (C) Companies that produce oil for Petroleos de Venezuela (PDVSA) under Operating Service Agreements (OSAs) have yet to be paid for their first quarter or April monthly payments (some companies receive their "service" fee on a quarterly basis and others on a monthly basis). According to Harvest Vinccler Country Manager Jean-Michel Bonnet, the Corporacion Venezolana de Petroleo (PDVSA affiliate that handles the relationship with international oil companies) informed AVHI (the association representing international oil companies) on June 17 and again on June 20 that it would make payments "very soon." Bonnet informed econoff June 23 that his company had been told "unofficially" by Banco Mercantil, the commercial banks with which it does business in Venezuela, that it had been informed that the CVP would make a 15 billion bolivar payment to Harvest. Bonnet noted that he did not understand what such a payment would cover.

AND PARTLY IN LOCAL CURRENCY

¶3. (C) CVP also informed AVHI that it will pay only 50 percent of the monies owed in dollars and the rest in bolivars. CVP's payments will reportedly only cover the amount stipulated in its proposed Transition Agreement ("Convenio Transitorio"), which has, we believe, now been delivered to all OSA companies (see reftel). According to this document, CVP will pay only 66.67 percent of the normal per barrel fee. Havest Vinccler's Bonnet informed econoff June 23 that, in the case of his company, the normal per barrel fee would be calculated on the basis of 48 percent of the per barrel cost of a marker crude, West Texas Intermediate (WTI). According to the new CVP formula, said Bonnet, Harvest calculates that its fee will drop to 39 percent of WTI or a further 20 percent loss for the company that is already having its production capped by PDVSA.

¶4. (C) With respect to the bolivar payments, Bonnet believes the OSA companies will be asked to detail to the CVP how they use the bolivars. Bonnet believes that if the CVP is satisfied that all possible payments have been made in bolivars, Harvest would then be allowed to change the remaining bolivars into dollars through the official foreign exchange control system. (Note: This process of demonstration and justification will doubtless levy heavy new documentation requirements.)

SIGNATURE OF THE TRANSITION AGREEMENT

¶5. (C) Bonnet informed econoff June 23 that, to his knowledge, no company has yet signed the Transition Agreement, under which the companies would commit to moving to a joint venture/mixed company with PDVSA. (Note: According to the CVP draft, they would also acknowledge that

their service contracts are illegal. If they sign the document as it now stands, the companies would also sign away their rights to international arbitration. End note.) An ExxonMobil employee who represented his company at the AVHI annual meeting on June 20 informed econoff June 22 that all the companies at that meeting had said they would not sign the agreement without significant changes. He noted that he had been particularly surprised by the hard positions taken by several Venezuelan companies that had recently joined AVHI.

COMMENT

¶6. (C) As we noted in reftel, we believe it is likely that the delay in paying the OSAs is linked to President Chavez's May 15 announcement that PDVSA would no longer pay foreign oil company expenses in dollars. Once Chavez made such a statement, CVP has doubtless been working with the Central Bank to devise a new policy and may well be close to unveiling it publicly.

¶7. (C) With respect to the signature of the Transition Agreement, industry sources in Caracas continue to believe that the companies most likely to break from the pack to sign the document would be China's CNPC, Brazil's Petrobras, or Spain's Repsol. As state oil companies from Chavez's preferred partner countries, their governments may well calcualate that they would make enough from a sweetheart deal in another sector to offset losses in the oil sector. The GOV's/PDVSA's insistance that companies make the transition to risker, less profitable joint ventures remains absolute.
Brownfield